

The Sydney Contrarian Financial Analysis

Stock Valuation Report

Evolution Mining Limited (ASX: EVN)

Date	19/02/2019
Classification	Large Gold Miner
Current Price	\$3.800
No. Issued Stocks (m)	1,697.0
Net Cash + Bullion (\$ m)	-\$33.48
Last Dividend Payment (\$ p.a.)	\$0.08
Market Capitalisation (\$ m)	\$6,431.49
Enterprise Value (\$ m)	\$6,464.97

Ranking	Slightly Overvalued
Price Range	\$2.80-\$4.25
Annual Production Guidance (oz p.a.)	720 000-770 000
All-In Sustaining Cost Guidance (\$/oz)	\$850-\$900
EV/AISC-Adjusted Production Guidance (\$/oz)	\$7,613.00
EV/AISC-Adjusted Production Range (\$/oz)	\$6 000-\$8 000
Resources (oz)	14,269,000
Reserves (oz)	7,221,000

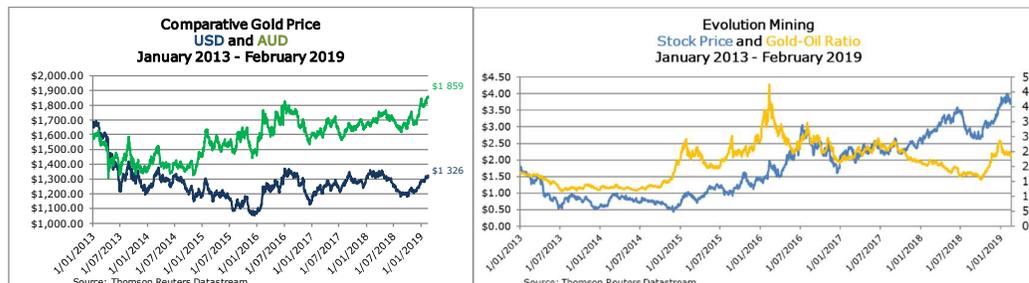
Summary

Evolution Mining is the second largest ASX-listed gold mining company by market capitalisation (after Newcrest Mining) and third largest by production (after Newcrest and Northern Star). The company owns and operates 6 mines across Australia in Western Australia, New South Wales and Queensland. The company's mines are positioned largely in the bottom quartile in AISC, and the company is ranked globally on the bottom quartile on cost.

Evolution Mining has been consolidating their operations after embarking on a major acquisition spree commencing in the 2015 financial year, resulting in their annual production doubling from 400koz to 800koz. The company also expanded their balance sheet with both debt and equity over 2015 and 2017. In the recent three years, Evolution Mining has substantially reduced their debt and they are expected to be in net cash position in the March 2019 quarter. This is a turnaround of almost \$400m since the 2017 financial year end.

Production across their six mines has met some obstacles in the December quarter owing to planned maintenance in Mount Rawdon and some operational issues have affected mine production also in Cowal and Mungari. AISC has also risen slightly in these mines and on aggregate to \$928/oz, up from \$785/oz in the comparable previous period and \$797/oz in the 2018 financial year. The company is expecting 2019 full year production to be 720 000-770 000 oz at AISC A\$850-900/oz, down from 750 000-805 000oz at AISC A\$820-870/oz guidance in the previous year. They announced the commissioning of a floats tail leach plant in the Cowal mine at the end of December that is expected to increase production rate going forward. An expansion of the Cowal processing plant has been approved, along with expansion of the Mount Carlton underground mine. These may underpin future production expansion.

Despite the slight decrease in production and increase in AISC, the stock price has exceeded historical record highs. Based on the current valuation, the stock is slightly overvalued although within the reasonable range when taking into account historical range and prevailing environment. Despite this, it is worth noting that the prevailing environment on the gold price in AUD reaching record high levels may further facilitate higher prices across this industry as there is renewed interest in gold and other precious metals.



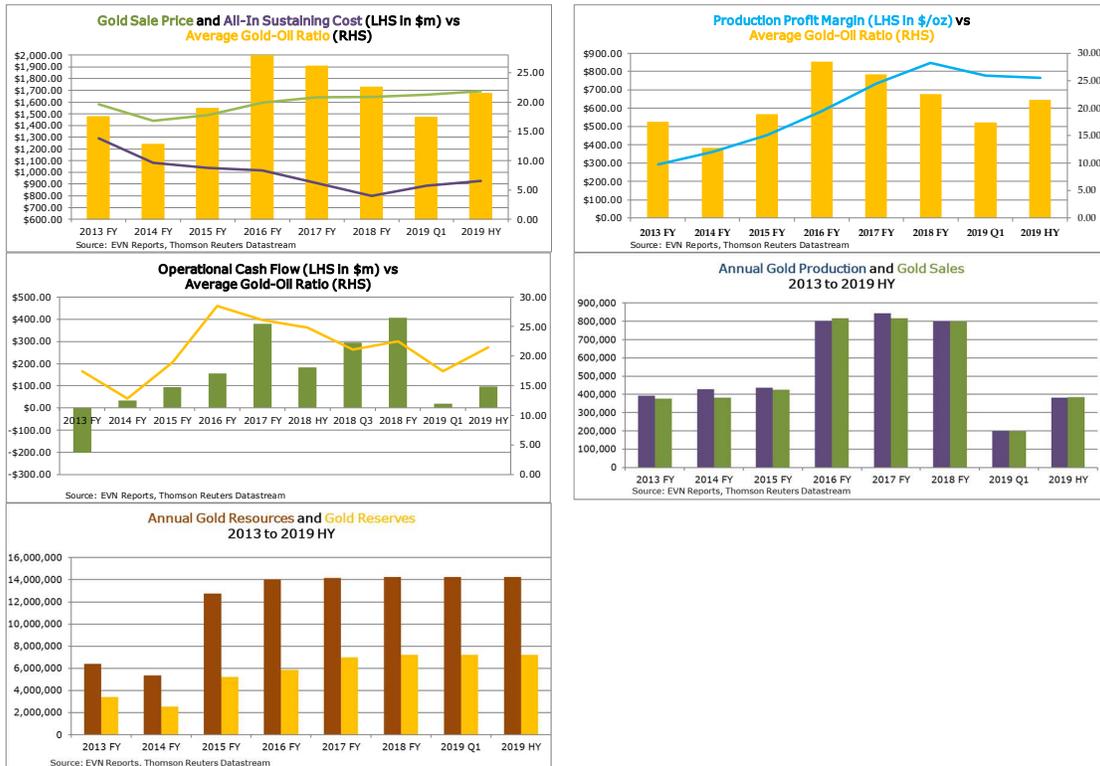
Prevailing Environment

The gold price in AUD terms has branched off increasingly from the USD terms especially in the last three months of 2018 as the Australian dollar declined more sharply, arising from a combination of a flight to safety with the global asset markets peaking as well as confirmation of the slowdown in the property markets in Australia leading to expectations of the Australian economy weakening going forward. Most noteworthy is the gold price in AUD terms was at a record high in intraday trading on 18th February 2019 at \$1 859/oz. Two major factors are at play in causing the Australian dollar to remain in the 70-72c range, thus resulting in the gold price in AUD terms to approach the all-time record high. They are the Reserve Bank of Australia announcing in the February meeting that they are uncertain about whether to raise or lower the cash rate and the Royal Commission on Banking final report being released implying further pulling back on credit lending.

More important to gold mining companies is not so much the gold price, but the relative price of gold and oil. The oil price is relevant as mining companies use large quantities of fuel to power machinery and also the oil price is a significant driver on wages and general costs. A high gold-oil ratio usually results in higher profitability and cash flow generation for gold mining companies.

In early October 2018, the gold price began to rally after the September rate hike while the oil price declined, leading to the gold-oil ratio rising from 16 to as much as 28 at the beginning of January 2019. During January 2019, the oil price recovered from the mid-US\$40/bbl to US\$52-54/bbl, resulting in the gold-oil ratio pulling back to 24. The oil price has recently rallied above US\$55/bbl.

Operational and Financial Performance Charts



SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> Established low cost mining company that is able to capitalise on economies of scale. Confirmed trend in reducing debt and improving liquidity, with balance sheet capacity to expand further if required. Mines are all located in Australia, a stable jurisdiction. 	<p>Weaknesses</p> <ul style="list-style-type: none"> Valuation at the current stage appears to be a bit generous. Given 6 operating mines, their reserves are somewhat low.
<p>Opportunities</p> <ul style="list-style-type: none"> Expansion of their existing mine infrastructure and development of their mines will increase their annual production and reduce costs. Consolidation of their mine portfolio is possible given their broad exposure across three states in Australia. They may be able to acquire neighbouring mine assets from other companies given their current balance sheet flexibility. 	<p>Threats</p> <ul style="list-style-type: none"> Any substantial bottlenecking or budget blowout of their mine development projects may threaten their balance sheet flexibility. Having 6 operating mines can place a strain on the stability of cash flow generation.

Peer Comparison

